Message Text

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SP-02 SS-15 USIA-06 /064 W
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AMCONSUL DUSSELDORF
AMCONSUL FRANKFURT
AMCONSUL HAMBURG
AMCONSUL MUNICH
AMCONSUL STUTTGART
USMISSION USBERLIN

C O N F I D E N T I A L SECTION 01 OF 03 BONN 18043

DEPARTMENT PASS TREASURY AND FEDERAL RESERVE

E.O. 11652: GDS
TAGS: ECON, EFIN, GW
SUBJECT: UNEMPLOYMENT PROJECTIONS: IMPLICATIONS FOR
ECONOMIC POLICY AND ELECTIONS

REF: (A) BONN 16713, (B) BONN A-560, (C) BONN 17878
1. SUMMARY. THE EMBASSY HAS MADE THE FORECAST THAT
UNEMPLOYMENT COULD EASILY REACH 1.2 MILLION, OR 5.4
PER CENT OF THE WORK FORCE BY JANUARY-FEBRUARY 1975.
SUCH UNUSUALLY HIGH UNEMPLOYMENT COULD HAVE UNFAVORABLE
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REPERCUSSIONS FOR THE SPD AND FDP IN THE UPCOMING

ELECTIONS, AND ACCELERATE THE MOVE TOWARD EXPANSIONARY ECONOMIC POLICIES. END SUMMARY.

2. SPEAKING IN NON-SEASONALLY ADJUSTED TERMS, THE OCTOBER DATA REFLECTED A 3.0 PERCENT UNEMPLOYMENT RATE, WHICH REPRESENTED 672,000 WORKERS BEING COUNTED AS UNEMPLOYED. NOT SINCE 1954 HAS THE OCTOBER DATA REFLECTED SO HIGH AN ABSOLUTE NUMBER OF UNEMPLOYED AND NOT SINCE 1955 WAS THE PERCENT UNEMPLOYED SO HIGH FOR THE MONTH OF OCTOBER. AGAIN EXAMINING NON-SEASONALLY ADJUSTED DATA, ONE MUST GO BACK TO JANUARY 1968 TO FIND COMPARABLE LEVELS IN BOTH ABSOLUTE AND RELATIVE TERMS FOR ANY MONTH OF THE YEAR. IT SHOULD BE NOTED THAT JANUARY AND FEBRUARY REPRESENT THE SEASONAL HIGH POINTS FOR UNEMPLOYMENT AND THAT IN THE WINTER OF 1967-68 GERMANY WAS AT THE DEPTH OF A CYCLICAL RECESSION. ONE MUST GO ALL THE WAY BACK TO THE WINTER OF 1958-59 TO FIND UNEMPLOYMENT LEVELS MEASURABLY HIGHER, AT WHICH TIME THEY REACHED 1.4 MILLION WHICH REPRESENTED 6.9 PERCENT OF THE WORK FORCE. HOWEVER EVEN THEN, THE OCTOBER 1958 LEVELS WERE 421,000 UNEMPLOYED AND 2 PERCENT, MUCH LOWER THAN PRESENTLY. IN OCTOBER OF 1967, THE CYCLICAL RECESSION PERIOD, THE UNEMPLOYMENT STOOD AT 361,000 OR 1.7 PERCENT. THE CONCLUSION THEREFORE IS THAT THE CURRENT SITUATION IS WORSE THAN IT WAS DURING THAT RECESSION, AND ALSO PERHAPS WORSE THAN 1958-59.

3. AS NOTED EARLIER THERE IS A SEASONAL PEAK IN UNEMPLOYMENT THAT IS TRADITIONALLY REACHED SOME TIME IN THE MONTHS OF JANUARY-FEBRUARY, SO THAT THERE WILL STILL BE SOME CONSIDERABLE ADDITION TO THE OCTOBER UNEMPLOY-MENT ROLLS TO TAKE PLACE BETWEEN NOW AND WINTER'S END. ASSUMING THAT THERE IS A RELATIONSHIP BETWEEN THE OCTOBER LEVELS AND THE JANUARY-FEBRUARY LEVELS OF UN-EMPLOYMENT, WE MADE SOME PROJECTIONS ON THE BASIS OF PAST YEARS' PERFORMANCE. THE AVERAGE RATIO OF THE JANUARY-FEBRUARY LEVELS TO THAT OF OCTOBER OVER THE PAST FIVE YEARS HAS BEEN 2.24, WHICH IS TO SAY THAT THE AVERAGE OF THE MONTHLY UNEMPLOYMENT IN JANUARY AND

FEBRUARY WAS 2.24 TIMES HIGHER THAN THE PRECEDING OCTOBER. IF THIS RATIO IS APPLIED TO THE OCTOBER 1974 DATA IT WOULD SIGNIFY THAT IN JANUARY AND FEBRUARY OF 1975 THE AVERAGE MONTHLY UNEMPLOYMENT WOULD BE 1.5 MILLION, WHICH REPRESENTS A 6.7 PERCENT UNEMPLOYMENT RATE. USING THE AVERAGE RATIO (2.5) OF THE PAST TEN YEARS WOULD REFLECT 1.7 MILLION UNEMPLOYED AND A 7.5

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C O N F I D E N T I A L SECTION 02 OF 03 BONN 18043

PERCENT RATE IN JANUARY-FEBRUARY 1975. IF ONE LOOKS AT THE RECESSION PERIOD OF 1967-68 THE RATIO IS 1.8, WHICH WHEN APPLIED TO THIS YEAR'S DATA WOULD SIGNIFY AN UN-EMPLOYMENT MONTHLY AVERAGE FOR THE COMING JANUARY-FEBRUARY OF 1.2 MILLION; THIS IS A 5.4 PERCENT UNEMPLOY-MENT RATE. (IT SHOULD BE NOTED THAT THE DEFINITION OF AN UNEMPLOYED PERSON IN THE FRG IS NARROWER THAN THAT USED IN THE U.S. AND TO ARRIVE AT A COMPARABLE STATISTIC IT HAS BEEN ESTIMATED THAT 1 - 1.5 PERCENT MUST BE ADDED

TO THE FRG FIGURE.)
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4. ANOTHER APPROACH TO FORECASTING WHAT THE SEASONAL PEAK IN UNEMPLOYMENT WILL BE NEXT YEAR IS TO LOOK AT THE INCREMENTS THAT HAVE HISTORICALLY TAKEN PLACE IN ABSOLUTE NUMBERS IN THE PERIOD BETWEEN OCTOBER AND JANUARY-FEBRUARY. FOR THE PAST FIVE YEARS THIS AVERAGE INCREMENT HAS BEEN 204,000, WHICH WOULD IMPLY THAT 876,000 WOULD BE THE AVERAGE UNEMPLOYED IN JANUARY-FEBRUARY 1975. USING TEN-YEAR AVERAGE DATA THIS FIGURE WOULD BE RAISED TO 904,000. A HIGHER RESULT, AND PER-HAPS MORE VALID ONE (SINCE THAT CYCLICAL SITUATION IS MORE TYPICAL OF THE PRESENT THAN THE PAST FIVE YEAR PATTERN), IS OBTAINED BY LOOKING TO THE INCREMENT WHICH TOOK PLACE BETWEEN OCTOBER 1966 AND JANUARY-FEBRUARY 1967. IN THIS CASE THE PROJECTION WOULD BE FOR A 1.2 MILLION FIGURE FOR UNEMPLOYED IN JANUARY-FEBRUARY 1975. THIS EQUATES TO 5.4 PERCENT OF THE WORK FORCE.

5. THE EMBASSY CONCLUDES FROM THE FOREGOING THAT WHILE UNEMPLOYMENT ON THE LOW SIDE COULD REACH 900,000 IN JANUARY-FEBRUARY 1975, IT COULD ALSO REACH AS HIGH AS 1.5 MILLION, WHILE A REALISTIC PROJECTION WOULD PROBABLY BE IN THE 1.2 MILLION RANGE. THE ACTUAL FINAL RESULT, OF COURSE, COULD VARY ON EITHER SIDE OF THIS FIGURE DEPENDING UPON THE SEVERITY OF THE WINTER (A HARSHER THAN NORMAL WINTER IS PROPHESIED) AND THE CONSEQUENT EFFECT ON LAYOFFS IN THE CONSTRUCTION INDUSTRY AS WELL AS THE SPEED OF RECOVERY, IF ANY, IN ECONOMIC ACTIVITY. THEREFORE, THE 1.2 MILLION FIGURE SEEMS TO BE A THOR-OUGHLY CONSERVATIVE FORECAST WITH THE PROBABILITY THAT IT COULD BE HIGHER RATHER THAN LOWER.

6. THE BACKDROP FOR ALL OF THIS HAS BEEN THE QUESTION OF WHEN, IF, AND HOW MUCH OF THE REMAINING DM 10 BILLION COUNTERCYCLICAL RESERVES HELD BY THE BUNDESBANK SHOULD BE UTILIZED TO STIMULATE THE ECONOMY AND TO WHAT DEGREE OTHER EXPANSIONARY MEASURES SHOULD BE UNDERTAKEN. FDP ECONOMICS MINISTER FRIDERICHS HAS BEEN AMONG THOSE WHO HAVE BEEN ADVOCATING CONTINUED RESTRAINT AND ARGUING AGAINST PREMATURE PUMP PRIMING WHICH WOULD LEAD TO "STOP AND GO" MACRO-ECONOMIC TINKERING. WITHIN THE SPD, IT IS SAID,
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MANY ARE URGING A QUICKER SHOT IN THE ARM. CHANCELLOR SCHMIDT, WELL AWARE OF BOTH THE ECONOMIC AND POLITICAL FACTORS HE MUST BALANCE AND THE NECESSARY EMPLOYMENT -INFLATION TRADEOFF EFFECT, IS TALKING OF A LATE DECEMBER OR EARLY JANUARY POSSIBLE SWITCH TO A MORE EXPANSIONARY COURSE WHICH IS THOUGHT TO INCLUDE THE COUNTERCYCLICAL FUNDS.

AS MENTIONED IN THE SUBSEQUENT PARAGRAPH, HOWEVER, THE EFFECT ON THE JOB MARKET WILL BE FAR FROM IMMEDIATE, BUT WILL CERTAINLY COME BEFORE THE 1976 NATIONAL ELECTIONS. HOWEVER, THE PROBLEM OF TIMING INTRUDES SINCE THE PRACTICAL BENEFITS OF THE RESULTANT BOOST TO EMPLOYMENT MAY HAVE FADED AND THE SUBSEQUENT IMPACT ON INFLATION MAY BE IN THE FOREGROUND ON THE EVE OF THESE ELECTIONS.

7. THERE ARE OF COURSE REGIONAL VARIATIONS WITHIN GERMANY AND THESE ASSUME POLITICAL IMPORTANCE IN VIEW OF THE VARIOUS STATE ELECTIONS THAT TAKE PLACE AT DIFFERENT POINTS IN TIME. IN BAVARIA AND HESSE DURING THE RECENT ELECTIONS THERE IN OCTOBER WHICH SAW THE SPD AND FDP SUFFERING REVERSES, THE UNEMPLOYMENT RATES WERE 2.8 AND 2.9 RESPECTIVELY AS COMPARED TO THE 3.0 NATIONAL AVERAGE. THE ELECTION MOST POLITICALLY CONSEQUENTIAL COMING UP WILL OCCUR IN NORTH RHINE/WESTPHALIA IN MAY. IN THIS STATE WE OBSERVE THAT RATHER THAN BEING BELOW THE NATIONAL AVERAGE IN UNEMPLOYMENT, AS IN THE CASE OF BAVARIA AND HESSE, THE AVERAGE UNEMPLOYMENT IN OCTOBER

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WAS 3.4, OR MARKEDLY ABOVE THE NATIONAL AVERAGE. OBVIOUSLY WITH AN EYE ON THESE FACTS IT WAS ANNOUNCED ON NOVEMBER 13 THAT NORTH RHINE/WESTPHALIA (NRW) WOULD RECEIVE A DM 300 MILLION PUMP-PRIMING FROM STATE FUNDS IN ORDER TO STIMULATE THE ECONOMY AND MAKE THE EMPLOY- MENT SITUATION MORE "SECURE". THE NRW MINISTER PRESIDENT HAS STRESSED THAT HE FEELS HIS STATE WILL RECEIVE A LARGE SHARE OF ADDITIONAL FEDERAL FUNDS. OF COURSE THERE IS A CONSIDERABLE TIME LAG BETWEEN THE INJECTION OF SUCH FUNDS AND THEIR REFLECTION IN THE

LABOR MARKET. SOME ESTIMATE THAT THIS LAG PERIOD COULD BE OF AT LEAST FIVE MONTHS DURATION. THE EFFECT ON THE ELECTORATE COULD THEREFORE COME IN THE NICK OF POLITICAL TIME.HOWEVER GIVEN THE SERIOUS UNEMPLOYMENT RATE CURRENTLY AND THE LIKELIHOOD THAT THINGS ARE GOING TO GET WORSE BEFORE THEY GET BETTER THERECAN BE NO GUARANTY THAT THIS WILL BE THE CASE AND THE SPD-FDP FORCES COULD FACE ANOTHER ECONOMICALLY-ASSISTED ELECTORAL DISAPPOINTMENT. AND, GIVEN THE ADMITTEDLY ECONOMICALLY AND POLITICALLY DESTABILIZING FORCE THAT UNEMPLOYMENT LEVELS OF THE NATIONAL SCALE FORECASTED ABOVE, THE COALITION'S WORRIES JUSTIFIABLY SHOULD EXTEND BEYOND NORTH RHINE/WESTPHALIA. CHANCELLOR SCHMIDT(REFTEL C) AND OTHER GOVERNMENT LEADERS HAVE INDICATED THAT THEY WILL NOT LET THE UNEMPLOYMENT SITUATION GET OUT OF HAND. THERE IS, HOWEVER, A CERTAIN DYNAMIC AND MOMENTUM WITH IMPLICATIONS THAT AT LEAST FOR THE NEAR TERM, ARE BEYOND HIS CONTROL BY ECONOMIC EXPANSIONARY DEVICES.

8. IT HAS BEEN SUGGESTED THAT THE LARGE FOREIGN WORKER CONTINGENT COULD BE REDUCED AND PERHAPS SENT HOME TO CUSHION THE ECONOMIC SLOWDOWN'S EFFECT ON UNEMPLOYMENT. IN THE EMBASSY PROJECTIONS WE USED AN APPROACH OF APPLYING HISTORICAL OVERALL UNEMPLOYMENT PATTERNS THAT ALSO INCORPORATED THE FOREIGN WORKER FACTOR, SO THAT TO A CERTAIN EXTENT THIS MEASURE IS ANTICIPATED. FOR EXAMPLE, IN SEPTEMBER 1966 THERE WERE 1.3 MILLION FOREIGN WORKERS, BUT BY JANUARY 1968 THESE NUMBERS HAD BEEN REDUCED TO 900 THOUSAND. THEIR NUMBERS THEN GREW STEADILY UNTIL SEPTEMBER 1973 TO A FIGURE OF 2.5 MILLION. IN MARCH 1974, THE LAST DATE FOR WHICH THIS STATISTIC IS AVAILABLE, THE FOREIGN WORKER COUNT DECLINED TO 2.4 MILLION (ABODT 11 PERCENT OF THE TOTAL WORK FORCE). THE CURRENT UNEMPLOYMENT RATE AMONG THE FOREIGNERS IN THE FRG IS 3.4 PERCENT, OR 0.4 PERCENTAGE POINTS HIGHER THAN THE NATIONAL AVERAGE. IT DOES NOT SEEM LIKELY THAT THE FRG WOULD (OR COULD) RESORT TO DRACONIAN MEASURES AIMED AT REDUCING THE FOREIGN WORKER POPULATION AT A STILL MORE ACCELERATED PACE THAN THE PROJECTION CONTEMPLATES. THE PRACTICAL ASPECTS OF THEIR WORK CONTRACTS, THE LABOR AND SOCIAL LAWS (WHICH PROVIDE

BENEFITS EQUAL TO THOSE AFFORDED GERMAN CITIZENS) AND FOREIGN POLICY CONSIDERATIONS WOULD NOT APPEAR TO MAKE THIS A FEASIBLE OPTION. BESIDES, THEY DO THE MOST MENIAL OF LABOR FOR WHICH BY AND LARGE GERMANS NO LONGER CARE TO QUALIFY. NORMAL ATTRITION SEEMS THE ONLY WAY THE "GUEST" WORKERS' NUMBERS WILL BE ABLE TO BE REDUCED.
HILLENBRAND

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